



# Affordable Housing Deep Dive Durham City Council Work Session

Thursday, May 4, 2023

# Agenda

- Who is TAA?
- Market Overview
- Industry Engagement
- Affordable Housing Investments
- Zoning & Land Use Reform



# Who is TAA?



- Founded in 1984, the Triangle Apartment Association is a non-profit trade association serving the multifamily rental housing industry. Our members are comprised of individuals and companies who develop, own, manage, and provide goods and services to the apartment industry in the Raleigh-Durham-Chapel Hill area.
- TAA members own and operate nearly 33,000 units in the City of Durham.

# Market Overview



- All data cited is courtesy of CoStar/Apartments.com and is current as of the report date of April 13, 2023.
- Note that the data cited is for the entirety of the Chapel Hill-Durham MSA.
- Overview will touch on vacancy, rent, and new construction among other items.



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# Overview: Construction

- Durham has a very active pipeline of 4,900 multifamily units under construction, which accounts for 8.7% of overall inventory and is near an all-time record for the market.
- The majority of building activity is concentrated in Durham's central submarkets, with about 40% of all construction underway in Downtown Durham, and another 30% in South Durham.



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# Overview: Absorption

- Definition: Absorption is the amount of space or units occupied within a market over a given period of time, typically one year. Absorption considers both construction of new space and removal of existing space and/or units. In general, absorption represents the demand for a type of real estate contrasted with supply.
- Multifamily demand in Durham has been mixed in recent quarters, with the market experiencing negative absorption in both 22Q4 and 23Q1.
- The region still has a growing population, but very high absorption in 2021 may have pulled forward some demand, and over the past 12 months, the market has been basically flat, with absorption of just 110 units. Meanwhile, more than 1200 units delivered during the same period.





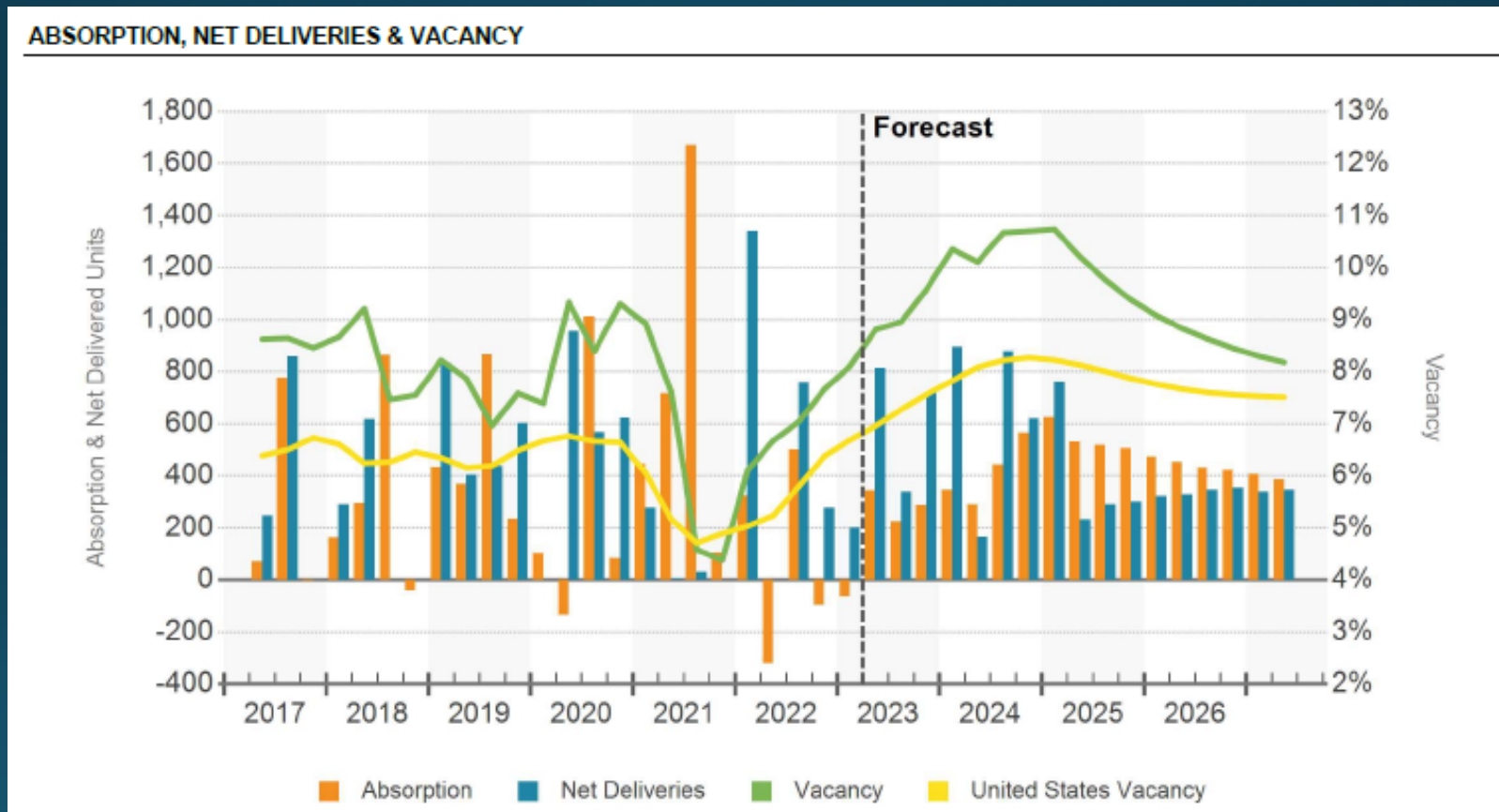
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# Overview: Vacancy

- A new wave of deliveries began in 22Q1, and the high number of deliveries combined with the mixed absorption has resulted in vacancy rates rising for several quarters in a row to the current level of 8.0%.
- Vacancies in Durham have risen for several quarters in a row due to a combination of new supply and limited net absorption.
- A vacancy rate of 3% is considered healthy because it represents a market balanced between tenants and owners. Areas with vacancy rates of less than 2% mean high rental demand, while vacancy rates above 4% mean that there is more housing supply than demand.

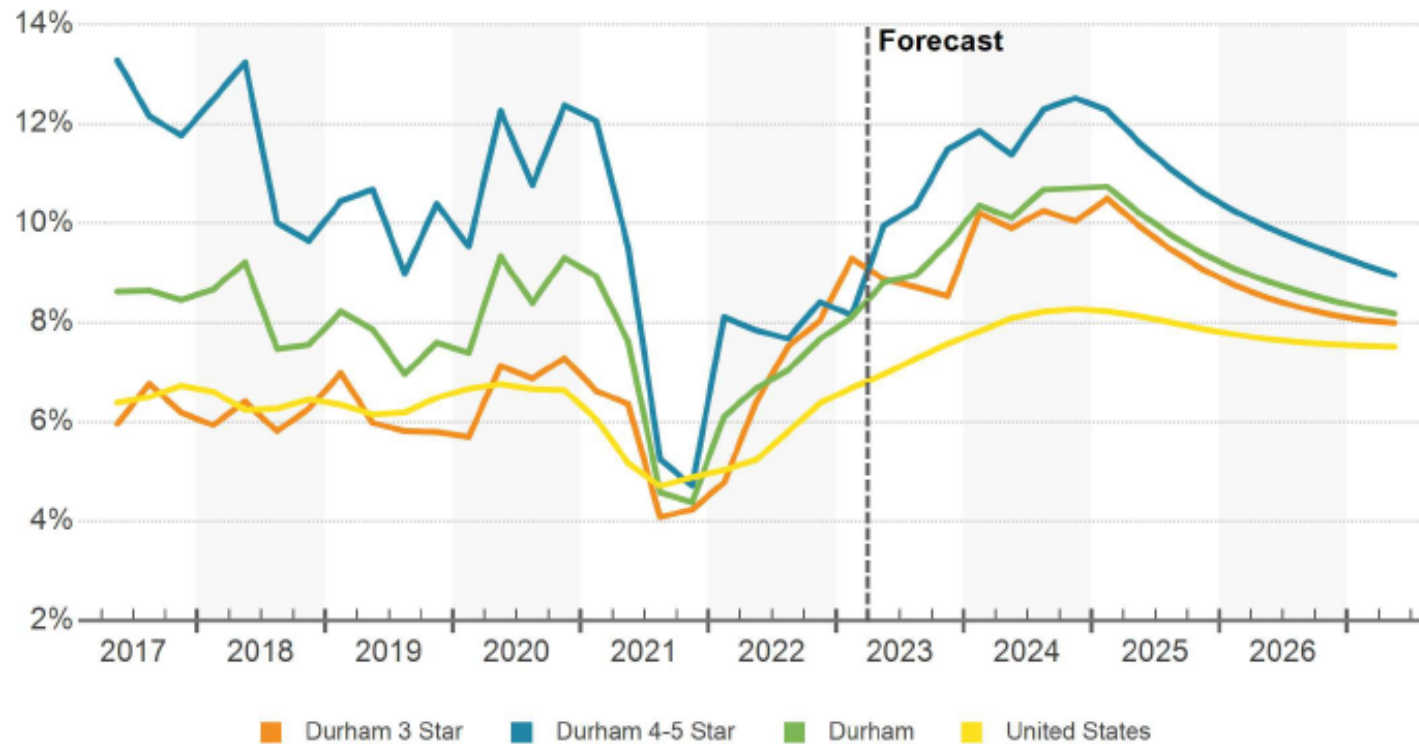
# Overview: Vacancy





# Overview: Vacancy

VACANCY RATE





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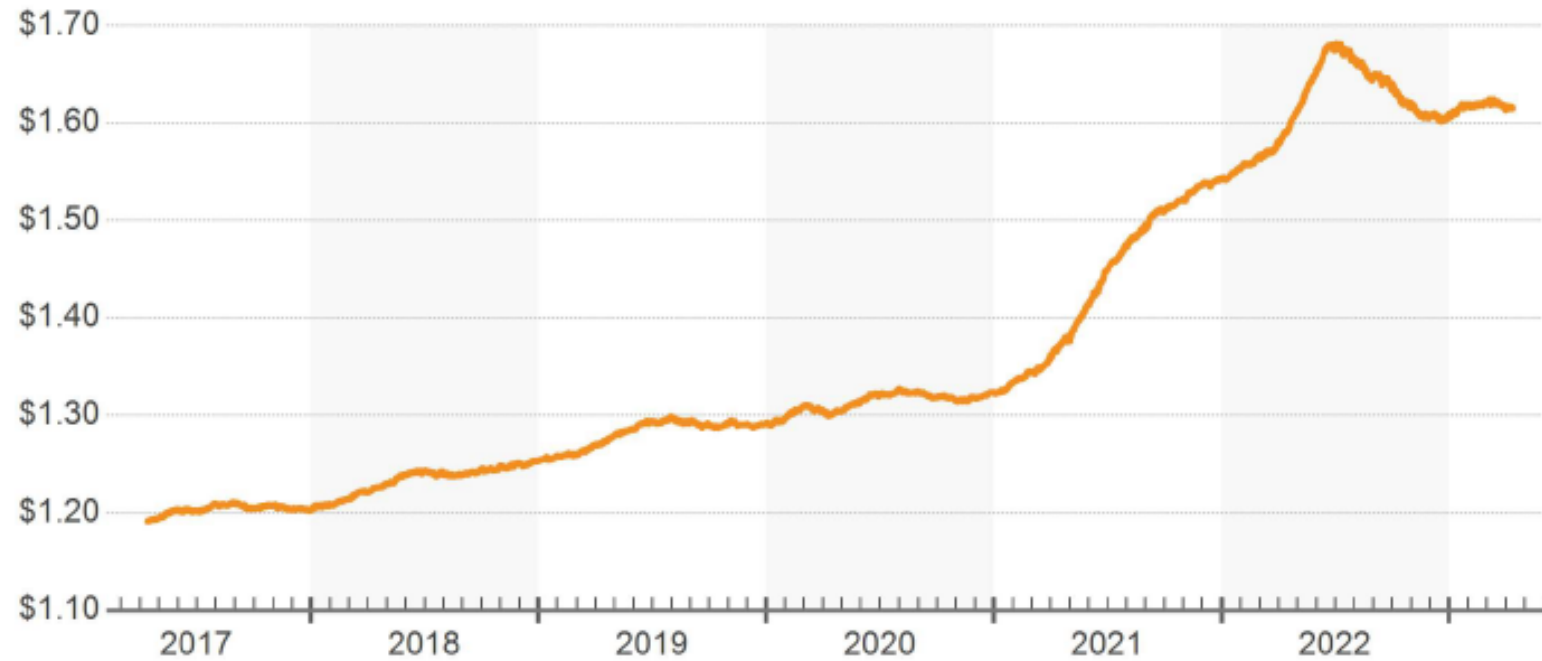
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# Overview: Rents

- Durham's apartment rents ticked up slightly in 23Q1, following declines in the second half of 2022, and currently average \$1,510/month, which is materially less expensive than the national average of \$1,650/month.
- On a year-over-year basis, rent growth is still positive, at 1.5%, but that is because of high rent growth in the first half of 2022 before the declines in the second half of the year, and annual rent growth is likely to become flat or even negative later this quarter.
- Rent growth has been stronger at higher-rated properties.
- New supply has also impacted rent growth. Rents declined in the second half of 2022, before ticking up slightly to start 2023.

# Overview: Rents

DAILY ASKING RENT PER SF



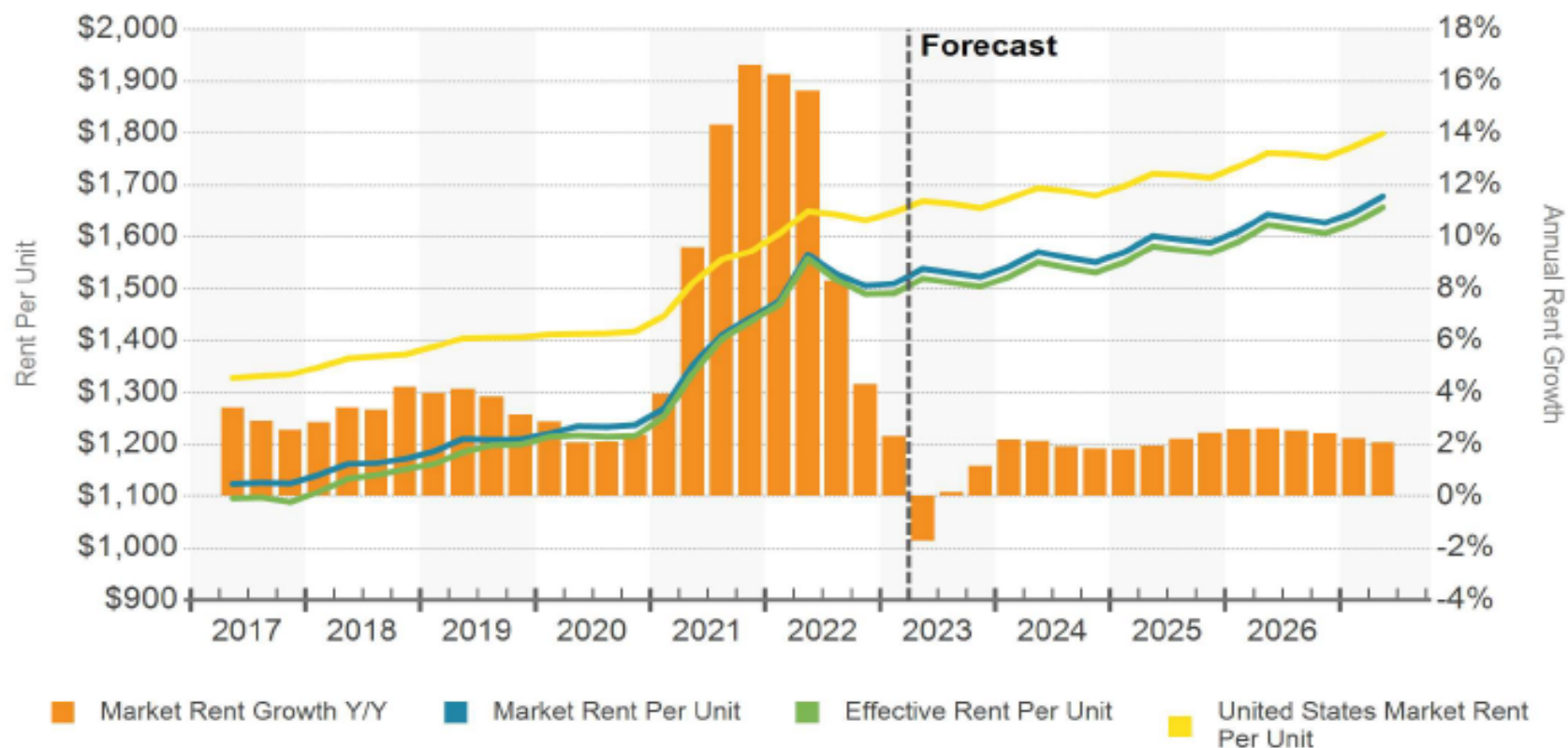
# Overview: Rents



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MARKET RENT PER UNIT & RENT GROWTH



# Overview: Key Indicators



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## KEY INDICATORS

Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	26,341	8.0%	\$1,722	\$1,704	27	0	3,717
3 Star	21,086	9.2%	\$1,371	\$1,351	17	0	1,077
1 & 2 Star	9,198	5.2%	\$1,173	\$1,155	3	0	154
Market	56,625	8.0%	\$1,511	\$1,492	47	0	4,948
Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	1.8%	8.1%	9.2%	9.8%	2008 Q4	4.4%	2021 Q4
Absorption Units	116	1,022	1,564	2,938	2021 Q4	24	2023 Q1
Delivered Units	1,236	1,129	1,807	2,796	2015 Q2	143	2010 Q1
Demolished Units	0	22	27	198	2020 Q1	0	2023 Q1
Asking Rent Growth (YOY)	1.5%	2.6%	1.8%	16.6%	2021 Q4	-3.5%	2023 Q2
Effective Rent Growth (YOY)	0.7%	2.6%	1.7%	18.1%	2021 Q4	-4.2%	2023 Q2
Sales Volume	\$943M	\$544.8M	N/A	\$2.5B	2022 Q1	\$0	2005 Q3

# Making Housing Affordable Together





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# Industry Engagement

- Bring back the Mayor's Landlord Roundtable.
- Convene an Affordable Housing Committee or Advisory Group that includes stakeholders from all sides of housing.

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# Housing Preservation Fund

- Provide additional funding for the Durham Affordable Housing Loan Fund (or an equivalent affordable housing preservation fund).
- The Durham Affordable Housing Loan Fund (DAHLEF) aims to help create more affordable housing in Durham, North Carolina. The City of Durham, Duke University, SunTrust, the North Carolina Community Development Initiative and Self-Help are partnering to fund and administer the program.
- Program enables acquisition of properties to create or preserve affordable units. Allows time to secure permanent financing and provides 100% of acquisition costs. Assists with pre-underwriting and in-house legal and real estate development expertise.

# Emergency Rental Assistance



- Launched during the pandemic, the Durham ERAP provided residents of the city with assistance with rent.
- During the program, nearly 3900 households received assistance to stay in their homes.
- ERAP funding was exhausted in early 2022 and while there is some assistance available through Durham DSS and local non-profits, no city program currently provides assistance.

# HCV Landlord Incentives



- Many landlords choose not to participate in the HCV program. It is not because of the population served or the source of the income, per se, but rather due to administrative complications from participation and gaps in communication and outreach.
- Housing for New Hope has received \$150k and is piloting a new incentive program, but more money will be necessary if we want to reach more properties and truly encourage participation.
- Wake County has launched a Landlord Engagement Unit and provides robust incentives such as sign-on bonuses, damage insurance, and renewal bonuses.



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# Zoning and Land Use Reform



- No matter how much money the City of Durham dedicates to housing assistance, it will never be enough if we don't make it cheaper and easier to build housing.
- There are many ways to tackle zoning and land use barriers and the city should engage widely with stakeholders to find solutions.
- There are currently amendments before the city that among other things, will change the way height is measured, remove parking minimums and expand flexibility for Accessory Dwelling Units. **These are all positive steps and should be adopted.**

# Zoning and Land Use Reform



- Other areas to investigate:
  - Legalize Townhomes and small multiplex projects across the city,
  - Evaluate restraints on small-scale apartments and make changes on density measures, lot size, yards, and building height to increase viability,
  - Expand opportunities for by-right development of multifamily properties by upzoning along transit corridors and major thoroughways and in commercial zones,
  - Evaluate infill standards and look for opportunities to streamline development with existing infrastructure, and
  - Create a Fast Track Program for ADUs and explore opportunities for the city to help with financing in exchange for affordability.

# Questions?



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